MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2018/2019

BAW4624 – TAX COMPLIANCE

(All Sections / Groups)

30 MAY 2019
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 13 pages excluding the cover page with **FIVE** (5) Questions only.

2. Attempt **ALL** questions. The distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

All questions are based on the Income Tax Act 1967 (as amended), the Real Property Gains Tax 1976 (as amended), Sales Tax 2018, Service Tax 2018 and the Stamp Act 1949 (as amended) and legislation passed up to 2018.

QUESTION 1

Ahmad is an ICAEW Chartered Accountant working as a senior tax adviser for a firm of accountants. He had a meeting with Seng Joo, a potential new client who has an unincorporated business. Seng Joo plans to expand his business. He is not satisfied with the services provided by his current tax adviser. As such he approaches Ahmad's firm to ask them to be his new tax adviser.

Required:

Identify two fundamental principles that Ahmad's firm should consider. Explain the procedures that Ahmad's firm should follow before they accept Seng Joo as their new client.

(Total: 7 marks)

QUESTION 2

(a) TSB Enterprises Sdn. Bhd., a licensed manufacturer, imports 90% of its raw material from overseas to manufacture goods which are sold locally as well as exported. Its output is subject to sales tax rate of 10%.

Details of the sales for the year ended 31 December 2018 are as follows:

	RM million
Export to Singapore	3
Sales to free trade zone	1
Sales to Langkawi	2
Local sales	2
Total	**8**

The company's gross profit margin on sales to customers outside the group is 40% while the margin on sales to customers within the group is 20%. Included in the local sales is RM375,000 of sales to a related company, STB Sdn. Bhd.

Raw material imported by TSB Enterprises Sdn. Bhd. amounted to RM1 million which is subjected to import duty of 20% and sales tax of 10%.

Required:

(i) Advise TSB Enterprises Sdn. Bhd. on when sales tax is due and payable in respect of domestically manufactured goods as well as imported goods. (3 marks)

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(ii) Compute the sales tax payable by TSB Enterprises Sdn. Bhd. on import of raw materials. (2 marks)

(iii) Compute the sales tax payable by TSB Enterprises Sdn. Bhd. on goods sold. (2 marks)

(b) Ali purchased a landed property located in Petaling Jaya. According to the Sales and Purchase Agreement (SPA) dated 1 October 2018, the purchase consideration is RM800,000.

In November 2018, he obtained a loan from CIMB for RM500,000 for the purchase of the property. He will settle the remaining balance using his own savings. The bank required him to purchase a mortgage reducing term assurance policy and the premium of RM10,000 was capitalized, making the total loan to be RM510,000.

Due to an oversight, the SPA was not submitted until 31 January 2019 and the stamp duty was paid on that date.

He also owned a two-bedroom house which he has let to tenants for many years. He decided to transfer this house to his spouse.

Required:

(i) Compute the total stamp duty payable on the purchase of the property and the loan agreement. Explain when the SPA needs to be stamped and calculate the amount of penalty payable.

(ii) Explain the stamp duty implications of the transfer of the two-bedroom house to his spouse. (6 marks)

(Total: 13 marks)

QUESTION 3

(a) Sandy sold her condominium on 17 May 2018 for RM450,000. Up to the time of sale, Sandy had incurred an interest charge of RM20,700 on the mortgage loan she took to buy the condominium.

Sandy acquired the condominium on 17 April 2015 for RM290,000. She incurred the legal fees of RM2,900 and a stamp duty of RM8,700 on the acquisition. While holding the property, a fire destroyed the dining hall and she received an insurance compensation of RM6,500.

In February 2016, Sandy received an offer to sell the condominium to Jason, who paid a deposit of RM10,500. However, Jason decided not to proceed with the deal and forfeited the deposit. Sandy then engaged an agent to sell the property and incurred the agency fee of RM13,500, valuation fee of RM900 and advertisement cost of RM400 in order to dispose of the property.

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Required:

With reference to the Real Property Gains Tax 1976 (as amended):

(i) Calculate the disposal price of the condominium. (3 marks)

(ii) Calculate the acquisition price of the condominium. (4 marks)

(iii) Calculate the real property gains tax (RPGT) arising from the disposal of the condominium. (3 marks)

(b) Mr. Tan is a retired businessman, who in his early days invested in several properties. On the advice of his financial consultant, he made the following arrangements in 2018 for his children with regard to his properties:

- the first child, a son would receive a shophouse and the rental income derived from that property. The son is 30 years old and is married but was recently diagnosed with terminal renal disease. Mr. Tan arranged that the property will revert to him should the son pre-decease him;
- the second child, a daughter aged 24 years old as at 1.1.2018, is single and is studying for a medical degree. She was given a condominium and is allowed to collect the rental income for her own use; and
- the third child, also a daughter is 15 years old (and not married) was given a tenanted bungalow. Mr. Tan will collect the rent and deposit the money in a savings account opened specially for the daughter.

Required:

Explain with reasons, who is the person that will be assessed to income tax derived from the relevant property settled by Mr. Tan for the year of assessment 2018. (6 marks)

(c) Mabel, domiciled in Malaysia, died on 30.6.2018. Her sources of income for the respective periods are shown below

Business 1

	RM
Adjusted income from a business for year ended 31st December 2018	30,000
Bank interest income credited on 31.12.2018	6,000

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Business II

Adjusted loss for year ended 31.12.2018	20,000
Rental income (net) for year ended 31.12.2018	6,000
Dividend income (single tier) paid on 1.1.2018	5,000

Other details are as follows:

The executor paid:

- RM 2,000 annuity to Mary (daughter of the deceased) on 1.12.2018
- RM 1,000 cash as gift to the State government on 1.10.2018
- RM 6,000 to Magdalene (beneficiary of the estate) from the income of the estate in 2018

Required:

Calculate the total income (if any) for YA 2018 for the following:

(i) Mabel (to date of her death)
(ii) Estate of Mabel (deceased)
(iii) Mary and Magdalene

(8 marks)

(Total: 24 marks)

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QUESTION 4

Endless Beauty Sdn. Bhd. (EB) is a resident company, wholly owned by a company resident in Hong Kong. EB is in the business of direct selling and marketing of beauty products with the brand name "Allure". It makes up its accounts to 30 November annually.

EB's statement of profit or loss for its financial year ended 30 November 2018 is as follows:

	Note	RM'000	RM'000
Sales			110,000
Less: Cost of sales	1		75,000
Gross profit			35,000
Add: Other income			
Interest income from overdue trade receivables		40	
Interest income from oversea subsidiary	2	2,300	
			2,340
			37,340
Less: Expenses			
Selling and distribution expenses	3	1,140	
Administration expenses	4	21,600	
Finance costs	5	2,000	
			24,740
Profit before tax			12,600

Notes:

1. Cost of sales includes the following:

	RM'000
Amortisation and depreciation of plant, property and equipment	7,330
Acquisition of proprietary rights (note (i)	200
Rental of factory premise (note (ii))	360

Note (i): In January 2018, EB acquired a proprietary right from a foreign owned company, as part of its business development strategy.

Note (ii): On 1 December 2017, EB entered into a three-year rental agreement for a factory premise for RM10,000 per month and it was agreed that EB would pay the total rental for the three-year period of RM360,0000 to the landlord in advance.

2. The interest income from the overseas subsidiary relates to a loan of RM30 million extended to the subsidiary, KB Korea Ltd., by EB from borrowed funds see (5) below.

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3. Selling and distribution expenses include:

	RM'000
Sponsorship of foreign arts and culture activities (approved by relevant Ministry)	500
Registration of an overseas patent for the promotion of exports	14
Entertainment expenses incurred for a sporting event opened to the public wholly to promote EB's business	300
Realised foreign exchange gain arising from settlement of trade receivables	(40)

4. Administration expenses include:

Statutory audit fees	70
Fees paid for accounts payable processing services	50
Entertainment expenses for gifts to visitors from Thailand	12
Donation of foodstuffs to an approved institution	120

5. The finance costs relate to the interest paid on a loan borrowed from Public Bank amounting to RM 60 million. EB used half this amount to fund the RM30 million advanced to the Korean subsidiary see (2) above and the balance to finance the acquisition of an asset held for the use of the production of income.

Additional information:

Capital allowances have been computed at RM7, 959,000 for the year of assessment 2018, but without taking into account the following acquisitions:

Child care centre
The construction costs amounting to RM50,000.

Motor car
A new car costing RM132,000 was purchased on 2 January 2018 for the general manager. A deposit of RM60,000 was paid. The monthly principal instalment (without interest) of RM3,000 commenced on 2 February 2018.

Required:

Commencing with the profit before tax figure, compute the chargeable income of Endless Beauty Sdn. Bhd. for the year of assessment 2018.

Note: You should indicate by the use of the word "nil" any item referred to in the question for which no adjusting entry needs to be made in the final computation.

(Total: 16 marks)

Continued...

QUESTION 5

(a) Dennis and Danny are partners of D&D Enterprise and have been carrying on a business as food and beverage delivery operator since 2016. The terms of their partnership agreement are as follows:

- Both partners will share the profit equally.
- 10% interest per annum to be paid to Dennis and Danny on their respective capital contributions of RM150,000 and RM180,000.
- Annual salary of RM45,000 for Dennis and RM48,000 for Danny.

Details of the partnership's income statement for the year ended 31 December 2018 are as follows:

Provisional adjusted income	RM300,000
Capital allowances	RM12,000

During the year 2018, the partnership paid a private expense on behalf of Danny of RM1,000. Besides the partnership business, Dennis and Danny have the following other sources of income:

- Dennis has a sole proprietor business in Malaysia which generated a statutory income of RM3,000 for the year of assessment 2018.

- Danny received adjusted rental income of RM3,500 from a property located in Pahang, Malaysia for the year of assessment 2018.

Required:

(i) Calculate the divisible income of the partnership under the Income Tax Act 1967 (as amended) for the year of assessment 2018. (4 marks)

(ii) Calculate the total income of Dennis and Danny under the Income Tax Act 1967 (as amended) for the year of assessment 2018. (6 marks)

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(b) Lucas, a Malaysian tax resident, is employed as a sales manager by Shahzam Sdn. Bhd. Shahzam) since 2006. On 2 January 2018, Lucas married Lindsay. Lindsay is a full time housewife and has a 20-year-old married daughter, Judy, from her previous marriage. Judy is currently pursuing her bachelor degree at Universiti Kebangsaan Malaysia (UKM). In December 2018, Lindsay gave birth to a baby boy, named Joshua. Lucas also has to support his elderly parents, both aged 80 years old and his mother-in-law in year 2018.

The details of Lucas income and benefits from employment and other income and payments for the year ended 2018 are as follows:

Income and benefits from employment:
- A monthly gross salary of RM11,000
- A bonus equal to two months' gross salary
- Lucas contributed 11% of his monthly salary towards the employees' provident fund (EPF)
- Monthly entertainment allowance of RM1,500
- Monthly parking allowance of RM120
- Meal allowance of RM1,000 per annum
- A cash reward of RM2,500 for excellent service in the company
- Fully-furnished accommodation provided free by the employer. The rental paid by the employer was RM1,300 per month
- On 1 July 2018, the company provided a car and incurred the following expenses:
    - Cost of the new car of RM160,000
    - Service and maintenance fees for the car RM1,600
    - Petrol of RM2,100

Other income received by Lucas in year 2018 as follows:
- Rental income of RM14,500 net of expenses from a shop house in Malaysia which he holds for investment purpose.
- Interest income of RM1,000 from Singapore remitted to Malaysia.

Payments/expenses incurred by Lucas in year 2018 as follows:
- Entertainment expenses incurred on company's clients of RM5,600
- Purchase of laptop of RM1,800
- University fees for Judy's bachelor degree of RM7,500
- Cash donation of RM300 to an approved charitable organisation
- Complete medical examination of RM700 for himself
- Breast feeding equipment of RM300 for his wife
- Broadband subscription fee of RM1,800
- Living expenses for mother-in law of RM5,000
- Maintenance expense for Lucas parents of RM12,000

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Lucas also operates a café in Melaka town. Details of his business income for the year 2018 are as follows:

Adjusted income	RM56,000
Capital allowances	RM 7,500
Unabsorbed business loss brought forward (from year of assessment 2017)	RM3,120

Required:

(i) Calculate the statutory business income for Lucas under the Income Tax Act 1967 (as amended) for the year of assessment 2018. (5 marks)

(ii) Calculate the statutory employment income for Lucas under the Income Tax Act 1967 (as amended) for the year of assessment 2018. (15 marks)

(iii) Calculate the income tax payable by Lucas after taking account the all taxable income and reliefs available under the Income Tax Act 1967 (as amended) for the year of assessment 2018. (10 marks)

Note: You should indicate by the use of the word 'nil', for any item referred to in the question for which no adjusting entry needs to be made, including any relief or rebate, in the tax computation.

(Total: 40 marks)

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APPENDIX

TAX RATES AND ALLOWANCES

The following tax rates, allowances and values are to be used in answering the questions.

Income tax rates for resident individuals for the year assessment 2018

Chargeable Income	Calculations (RM)	Rate %	Tax(RM)
0 - 5,000	On the First 2,500	0	0
5,001 - 20,000	On the First 5,000 Next 15,000	1	0 150
20,001 - 35,000	On the First 20,000 Next 15,000	3	150 450
35,001 - 50,000	On the First 35,000 Next 15,000	8	600 1,200
50,001 - 70,000	On the First 50,000 Next 20,000	14	1,800 2,800
70,001 - 100,000	On the First 70,000 Next 30,000	21	4,600 6,300
100,001 - 250,000	On the First 100,000 Next 150,000	24	10,900 36,000
250,001 - 400,000	On the First 250,000 Next 150,000	24.5	46,900 36,750
400,001 - 600,000	On the First 400,000 Next 200,000	25	83,650 50,000
600,001 - 1,000,000	On the First 600,000 Next 400,000	26	133,650 104,00
Exceeding 1,000,000	On the First 1,000,000 Next ringgit	28	237,650 .....

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Reliefs

Reliefs	RM
Self	9,000
Disabled self, additional	6,000
Medical expenses expended on parents (maximum)	5,000
Medical expenses expended on self, spouse or child with serious disease including up to RM500 for medical examination (maximum)	6,000
Parental care (each)	1,500
Basic supporting equipment for disabled self, spouse, child or parent (maximum)	6,000
Study course fees for skills or qualifications (maximum)	7,000
Lifestyle allowance (maximum)	2,500
Spouse relief	4,000
Disabled spouse, additional	3,500
Child – basic rate (each)	2,000
Child – higher rate (each)	8,000
Disabled child (each)	6,000
Disabled child, additional (each)	8,000
Childcare (below six years old) (maximum)	1,000
Breastfeeding equipment (maximum)	1,000
Life insurance premiums and contributions to approved funds (maximum)	6,000
Private retirement scheme contributions, deferred annuity premiums (maximum)	3,000
Medical and/or education insurance premiums for self, spouse or child (maximum)	3,000
Deposit for a child into the National Education Savings Scheme (maximum)	6,000
Contribution to Social Security Organisation (SOCSO) (maximum)	250

Rebates

Rebates	RM
Chargeable income not exceeding RM35,000	
Individual	400
Individual who has been given a deduction in respect of a spouse or former wife	400

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Prescribed value of benefits in kind: Car and fuel scale

Cost of car (when new)	Prescribed annual value of private usage of car	Fuel per annum
RM	RM	RM
Up to 50,000	1,200	600
50,001 – 75,000	2,400	900
75,001 – 100,000	3,600	1,200
100,001 – 150,000	5,000	1,500
150,001 – 200,000	7,000	1,800
200,001 – 250,000	9,000	2,100
250,001- 350,000	15,000	2,400
350,001 – 500,000	21,250	2,700
500,001 and above	25,000	3,000

The value of the car benefit equal to half of the prescribed annual value (above) is taken if the car provided is more than five (5) years old, but the value of the fuel provided remains unchanged. Where a driver is provided by the employer, the value of the benefit per month is fixed at RM600.

Other benefits

Household furnishings, apparatus & appliances	
Semi-furnished with furniture in the lounge, dining room, or bedrooms	- RM70 per month
Semi-furnished with furniture as above and one or more of the following:	
Air-conditioners, curtains, carpets	- RM140 per month
Fully furnished premises	- RM280 per month
Domestic servant	- RM400 per month
Gardener	- RM300 per month

Capital allowances

	Initial allowance Rate (%)	Annual allowance Rate (%)
Motor vehicles and heavy machinery	20	20
General plant and machinery	20	14
Office equipment, furniture and fittings	20	10
Child care center	nil	10

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Tax rates of resident company

Company with paid-up capital of not more than RM2.5 million

Chargeable income	Rate
<= RM500,000	18%
Excess RM500,000	24%

Company with paid-up capital of more than RM2.5 million

All chargeable income	24%

Real property gains tax

Disposal by all persons

Holding Period	Citizen or Permanent Resident	Company	Non-Citizen or Non-Permanent Resident
Within 1 year	30%	30%	30%
Within 2 years	30%	30%	30%
Within 3 years	30%	30%	30%
Within 4 years	20%	20%	30%
Within 5 years	15%	15%	30%
Beyond 5 years	0%	5%	5%

Sales and service tax

	Rate %
Sales tax	10
Service tax	6

Stamp duty

Rates of duty under the First Schedule

Conveyance, assignment, transfer or absolute bill of sale

	Rate %
Sale of property	
For every RM100 or fractional part thereof:	
On the first RM100,000	1
On the next RM400,000	2
On the excess over RM500,000	3
Excess of RM1 million	4
Loan agreement	
On every RM1,000 or fractional part thereof	RM5

End of paper